

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7243

BILL NUMBER: HB 1570

NOTE PREPARED: Jan 11, 2013

BILL AMENDED:

SUBJECT: Textbook Sales Tax Holiday.

FIRST AUTHOR: Rep. Klinker

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a Sales Tax exemption for school instructional materials that are purchased during the first weekend in August and the second weekend in January.

Effective Date: Upon passage.

Explanation of State Expenditures: *Department of State Revenue (DOR):* This bill will increase the administrative costs of the DOR. They will need to amend the Sales Tax forms and modify the Sales Tax processing system. It is estimated that the provisions of this bill can be implemented within the existing level of resources available to the DOR.

Explanation of State Revenues: *Summary* - This bill could reduce Sales Tax revenue by an estimated \$1.4 M to \$8.9 M in FY 2014 and by \$1.5M to \$9.3 M in FY 2015. Revenue loss from this bill depends on the volume of the planned purchases of school instructional materials in August and January that are shifted into those four days because of the temporary Sales Tax exemption.

Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (CRSF) (0.123%), and the Industrial Rail Service Fund (IRSF) (0.029%).

Impact on Funds		Low (in millions)		High (in millions)	
Fund	Distribution	FY 2014	FY 2015	FY 2014	FY 2015
State General Fund	99.848%	(\$1.3979)	(\$1.4977)	(\$8.8865)	(\$9.2859)
IRSF	0.029%	(0.0004)	(0.0004)	(0.0026)	(0.0027)
CRSF	0.123%	(0.0017)	(0.0018)	(0.0109)	(0.0114)
Total	100.000 %	(\$1.4000)	(\$1.5000)	(\$8.9000)	(\$9.3000)

Background - August and January are the peak sales months for school instructional materials. This is driven largely by students going to college and purchasing textbooks, workbooks, and reference books. The bill makes those items Sales Tax-exempt for two days in August and two days in January.

According to the National Center for Education Statistics, the average cost of books and supplies for a full-time student in Indiana was \$1,100 in 2010. Indiana had 320,000 full-time students and 145,000 part-time students enrolled at an institution of higher education. The estimate assumes 89% of those students will purchase textbooks. Based on seasonal enrollment patterns, 90% of the textbook sales will occur in August and January, and 91% of the sales will take place prior to the beginning of classes.

The price elasticity of demand for textbooks is the basis for the lower limit estimate. Research has found that textbooks are not very responsive to price changes. The price elasticity for textbooks was as low as -0.2, which means a 10% decrease in price will cause a 2% increase in textbooks purchased. So, removing the Sales Tax is estimated to reduce the consumer's total cost by 7%, which would lead to a 1.4% increase in textbook sales on the tax-exempt days under the bill.

Research on the impact of sales tax holidays on purchasing patterns is the basis for the upper limit estimate. The research suggests consumers will shift planned purchases to take advantage of a Sales Tax exemption. According to the studies, the percent of shifted purchases depends on the items that are exempt. It can range from 37% to 90%. Given the price inelasticity of college textbooks, the estimate assumes an additional 37% of the monthly sales will shift into those four days.

The analysis focused primarily on the sales of college textbooks. College students would be the largest segment that would benefit from this bill. The textbooks provided for primary and secondary education are usually purchased in bulk by the institutions and rented to the students. Those purchases are already tax-exempt. Families that home school their children and private school students who purchase textbooks would also benefit from this bill. The cost and method of acquiring textbooks varies considerably for these populations. The revenue loss could be greater to the extent they purchase textbooks on the specified days.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues will be reduced to the extent that a local unit receives funds from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units that receive Sales Tax revenue.

Information Sources: National Center for Education Statistics, Integrated Postsecondary Education Data System <http://nces.ed.gov/ipeds/datacenter/default.aspx>; Cole, Adam J. “*The Fiscal Impact of Sales Tax Holidays*,” May 16, 2009; Koch, James V. “*An Economic Analysis of Textbook Pricing and Textbook Markets*,” September 2006; Book Industry Study Group, “*Student Attitudes Toward Content in Higher Education*,” February 21, 2012.

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